

The ILLINOIS Funds

The Money Market Fund Investment Policy

1.0 Policy: It is the policy of the Treasurer of the State of Illinois ("Treasurer") to invest funds pooled by local governments in the Money Market Fund within The Illinois Funds (previously referred to as the Illinois Public Treasurers' Investment Pool or IPTIP) in a manner which will provide the highest investment return using authorized instruments, while meeting the daily cash flow demands of participants and conforming to all state statutes governing the investment of public funds.

2.0 Objective: The primary objective in the investment of funds within the Money Market Fund is the safety of principal, while providing all participants a competitive rate of return and daily access to invested funds.

2.1 Safety: The safety of principal is the foremost objective of the investment program. Money Market Fund investments shall be undertaken in a manner, which seeks to ensure the preservation of capital in the portfolio. To obtain this objective, diversification is required to ensure that the Money Market Fund properly manages market, interest rate and credit risk.

2.2 Liquidity: The investment portfolio shall remain sufficiently liquid to enable the Money Market Fund to meet all operating requirements which might be reasonably anticipated.

2.3 Return on Investment: The investment portfolio shall be designed to obtain the highest available return, taking into account the Money Market Fund's investment risk constraints and cash flow needs.

The Treasurer will select an accepted industry benchmark which best reflects the Money Market Fund's portfolio and will measure performance against the benchmark over a market cycle. The benchmark will be periodically reviewed for suitability.

3.0 Ethics and Conflicts of Interest: Authorized investment staff and employees in policy making positions for the Money Market Fund shall refrain from personal business activity that conflicts with proper execution of the investment program, or which impairs their ability to make impartial investment decisions. Such individuals shall disclose to the Treasurer any material financial interests in financial institutions or broker/dealers that conduct business within the State. They shall further disclose any personal investments that are related to the performance of the Money Market Fund's portfolio. In addition, such individuals shall subordinate their personal investment transactions to those of the Money Market Fund, particularly with regard to the time of purchase and sales.

4.0 Authorized Broker/Dealers and Financial Institutions: Authorized investment staff shall utilize the Treasurer's approved list of financial institutions when selecting institutions to provide investment services. No public deposit shall be made except in a qualified public depository as defined by state statutes.

In addition, a list shall also be maintained of approved security broker/dealers selected according to their credit worthiness, and their financial significance in the State, which shall be measured in terms

of the location of the broker/dealer's corporate office and the extent to which the broker/dealer has a large labor or economic impact on the State. They may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule).

All financial institutions and brokers/dealers interested in becoming qualified parties for investment transactions must supply the Treasurer's authorized investment staff with the following or equivalent acceptable to the Treasurer, where applicable:

- audited financial statements
- proof of National Association of Security Dealers certification
- trading resolutions
- proof of state registration
- completed broker/dealer questionnaire
- certification of having read the Money Market Fund's investment policy
- depository contracts
- published reports for brokers from rating agencies with investment grade ratings
- emerging broker status
- Consolidated Reports of Condition and Income

An annual review of the financial condition and registration of qualified parties will be conducted by the Treasurer's authorized investment staff. More frequent reviews may be conducted.

A current audited financial statement or equivalent acceptable to the Treasurer is required to be on file for each financial institution and broker/dealer with which The Illinois Funds establishes a depository, trading, or safekeeping relationship. Qualified parties shall submit updated financial statements or equivalent acceptable to the Treasurer when a material change in any of the above occurs.

5.0 Authorized and Suitable Investments: The following investments are permitted investments of state funds according to the Deposit of State Moneys Act (15 ILCS 520/22.5) and the Public Funds Investment Act (30 ILCS 235/2) and are authorized to the extent they are approved by Standard & Poor's for AAAM rated funds:

- In bonds, notes, certificate of indebtedness, treasury bills or other securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)
- Repurchase Agreements of government securities having the meaning set out in the Government Securities Act of 1986 subject to the provisions of that Act and the regulations issued thereunder; Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)
- Interest bearing savings accounts, interest-bearing certificates of deposits or interest bearing time deposits or any other investments constituting direct obligations of any bank as defined by the Illinois Bank Act (205 ILCS 5/1 et seq.); Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)
- In money market mutual funds registered under the Investment Company Act of 1940,

provided that the portfolio of any such money market mutual fund is limited to United States Treasury Securities and to agreements to repurchase such obligations and the fund is rated AAA. Public Funds Investment Act (30 ILCS 235/2) & Deposit of State Moneys Act (15 ILCS 520/22.5)

- Suitable securities in the Money Market Fund's portfolio may be lent in accordance with Federal Financial Institution Examination Council guidelines

6.0 Investment Restrictions: The following restrictions shall apply to all Money Market Fund investment transactions:

- investments in derivative products and leveraging of assets through reverse repurchase agreements are prohibited
- repurchase agreements may only be executed with financial institutions or broker/dealers meeting the Treasurer's standards, which shall include mutual execution of a Master Repurchase Agreement adopted by the Treasurer.
- certificates of deposit may not be purchased from the Money Market Fund's custodial institution or any of its subcontractors
- investments in Bankers' Acceptances of any kind.

7.0 Collateralization: All Money Market Fund deposits and repurchase agreements shall be secured by direct U.S. Treasury and/or U.S. Agency obligations as required by the Treasurer and provided for by the Deposit of State Moneys Act (15 ILCS 520) and the Treasurer's Acceptable Collateral Listing, which may change from time to time.

8.0 Safekeeping and Custody: All security transactions entered into by the Money Market Fund shall be conducted on a delivery-versus-payment (DVP) or receipt-versus-payment (RVP) basis. Securities shall be held by a safekeeping agent designated by the Treasurer, and evidenced by safekeeping receipts.

9.0 Diversification: The Money Market Fund portfolio shall be diversified to eliminate the risk of loss resulting from concentration of assets in a specific maturity, a specific issuer or a specific class of securities. In order to properly manage any risk attendant to the investment of Money Market Fund assets, the Money Market Fund portfolio shall not exceed the following diversification limits unless specifically authorized by the Treasurer:

1. The Money Market Fund shall seek to achieve diversification in the portfolio by reasonably distributing investments within authorized investment categories among financial institutions, issuers and broker/dealers.
2. The Money Market Fund shall at no time hold certificates of deposit constituting more than 10 percent of any single financial institution's total deposits.
3. No investment category shall exceed 25% of the Money Market Fund portfolio, with the exception of cash equivalents and U.S. Treasury securities.
4. The Money Market Fund shall invest a minimum of 75% of its assets in authorized investments of less than one-year maturity. No investment shall exceed two years maturity.

10.0 Internal Controls: The Treasurer shall establish a system of internal controls, which shall be documented in writing and filed with the Inspector General of the Treasurer's Office for review as an adjunct to the annual independent examination of the financial statements of the Money Market Fund. The controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by authorized investment staff of the Money Market Fund.

The Treasurer shall publish the current investment policy yearly in a newspaper of general circulation in both Springfield and Chicago.

10.1 Asset Allocation: The Treasurer shall approve asset allocation among investment categories authorized under Section 5.0 of this Investment Policy.

10.2 Competitive Bidding: Authorized investment staff shall obtain competitive bids from at least three broker/dealers prior to executing repurchase agreements or purchasing treasury securities from a broker/dealer. Notwithstanding the foregoing, authorized investment staff may tender bids directly through a single broker/dealer for the original auction of individual U.S. Treasury obligations. Certificates of deposit shall be purchased by authorized investment staff on the basis of a financial institution's ability to pay the Treasurer's required interest rate. Such rate is generally determined on the basis of U.S. Treasury rates for a comparable term.

11.0 Limitations of Liability: Authorized investment staff, acting in accordance with written procedures and this investment policy and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

The Treasurer is bonded to a level of \$150,000 for the faithful performance of duties in relations to the Illinois Public Treasurers' Investment Pool.

12.0 Reporting: Reports shall be presented quarterly by the Director of The Illinois Funds to the Treasurer and The Illinois Funds participants. The quarterly report shall contain the following:

- performance as compared to the established benchmark
- asset allocation
- any deviation from the standards established in Section 9.0 above
- any change in investment policy adopted during the quarter
- the average days to maturity

A listing of all investments in the portfolio marked to market shall be provided to the Treasurer and The Illinois Funds participants annually.

The Treasurer shall develop performance reports in compliance with established industry reporting standards within six months following the adoption of this investment policy. Such reporting standards may include those sanctioned by the Association of Investment Management Research (AIMR) in accordance with Generally Accepted Accounting Principles (GAAP).